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organic natural health



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KADAC PTY LTD

2 Age Street Cheltenham
VIC 3192
Australia

Anti-Dumping Commission
The Commissioner 5th Floor
Customs House
5 Constitution Avenue
Canberra ACT 2601

NON CONFIDENTIAL

RE: The Australian Industry's response to the application for exemption (SPC dated 18 December 2014)

Dear Commissioner,

Kadac has previously requested an exemption from the Anti-Dumping commission on the basis that our products are different to the market offer and also premium priced due to the organic nature of the range. Kadac has previously responded to the industry response (SPC) to our Exemption application No. EX0036 in relation to canned organic tomatoes, which was received by the ADC on the 18 December 2014, after the due date for response closed on 8 December 2014.

By way of introduction, Kadac Pty Ltd is medium size fully Australian owned and operated business that has been providing Australian consumers for over 40 years with Organic, Natural and Health products. We are located in Cheltenham, Melbourne with approximately 150 employees. We have a manufacturing facility as well as warehousing, Sales and distribution to support our business. As part of our manufacturing, we have brands such as Lotus and Nature First which are high level, first class health and wellbeing orientated products. As well as distributing many other brands in the Australian market, we also have the brand referred to in this ADC review which is Global Organics. Global Organics is a premium brand that has over 25 products within the range. It covers products such as Lentils, Pesto, Mustards, Vinegars and Tomatoes. This is a brand that we have developed over several years and the equity is such that any reduction in range due to being priced out of the market in Tomatoes will have a negative material impact on our business. The pricing of these product, including the Tomato lines, are priced at a premium level which reflects the quality as well as the

method as to how these products are produced the product offer and quality delivered in this range is at the premium end of the market. The price position and organic nature of the product offer establishes that it is not in the everyday offer in the Australian retail market that has limited organic offer and a strong conventional offer.

In reference to our Global Organics range, including Tomato products, we would like to show that all of our Organic products have and are ACO accredited (Australian Certified Organic) with the determination of being an Organic producer or supplier as prescribed by ACO as ***“Organic farmers and food producers grow and produce food without using synthetic chemicals (such as pesticides or artificial fertilisers). They do not use genetically modified (GM) components or expose food to irradiation”***. ACO is ***approved and accredited to act as a certifier in Australia by the Australian Quarantine and Inspection Service (AQIS)***. The reason we include this is to demonstrate that these are not “like” products as the method and requirements to produce Organic products are not the same as conventional products and therefore reflect this in the cost of goods and subsequent retail selling prices.

Our responses below show further reasons as to why our Global Organics organic canned tomato products and other Global Organics organic tomato products such as the Passata Glass should be exempted from any import dumping duties. The key take out regarding our response to SPC is that they are not comparing identical products in their assessment, but rather using terms such as “like” goods. Clearly when we are comparing Organic Tomatoes that we are seeking exemption for, to the conventional products that SPC are referring to, are different products, which can be evidenced in the massive retail price gap between them. Furthermore, there is no reference from SPC to Organic Passata Glass products which we are also seeking an exemption on, therefore we feel that this should also be granted.

PART C, C.1

As stated by SPC Ardmona, they clearly state that they do not manufacture or sell organic tomato product range that KADAC imports and based on this Kadac should be exempt on any import dumping duties. It is our preference to support and partner with Australian companies, however is there is no opportunity to find an Australian partner to produce and pack Organic Tomatoes products, our only alternative is to seek supply from other locations. Penalties should not be applied based on this as there is no other alternative. There is sufficient consumer demand for us to pursue this strategy of differentiation versus the low end conventional offer in many retail locations.

PART D, D.1

SPC Ardmona states that Kadac organic tomato products compete in the same market and even available on the same supermarket shelves. Kadac brand Global Organics is predominately sold in health food stores and independent stores. The Global Organic brand, of which the exemption for organic tomatoes is applicable to, is not sold in supermarket chains, where approximately 82% of canned tomato products are sold. Our customers purposely seek organic canned tomatoes and generally do not interchange between organic and conventional canned tomatoes. Kadac Global Organics organic canned tomatoes are priced at a premium value and are not discounted to our retailers. Consumers who purchase and use organic canned tomatoes generally add this product with other organic ingredients to produce organic home cooked food.

As per the table below, please see the price differential between Global Organics Organic Tomatoes, major chain brand pricing (including housebrand) and SPC Ardmona pricing. It is worth reiterating that Global Organics Tomato products are not sold into the Coles, Woolworths or Aldi and therefore do not compete for shelf space within these selling retail environments.

Brand Owner	Product	Product Market Position	Oasis Bakery Independent	Coles Chain	Woolworths Chain	Aldi Chain
Kadac	Global Organics Organic Tomatoes Chopped Can 400g	Proprietary	\$2.29	do not sell to Coles	do not sell to Woolworths	do not sell to Aldi
Kadac	Global Organics Organic Tomatoes Whole Peeled Can 400g	Proprietary	\$2.39	do not sell to Coles	do not sell to Woolworths	do not sell to Aldi
Kadac	Global Organics Organic Tomato Passata Rustica Glass 680g	Proprietary	\$3.79	do not sell to Coles	do not sell to Woolworths	do not sell to Aldi
SPC / CCA	Ardmona Whole Peeled Conventional Tomatoes Can 400g	Proprietary		\$1.40	\$1.40	
SPC / CCA	Ardmona Chopped Conventional Tomatoes Can 400g	Proprietary		\$1.40	\$1.40	
SPC / CCA	Ardmona Crushed Conventional Tomatoes 410g	Proprietary		\$1.40	\$1.40	
Coles	Smart Buy Conventional Whole Peeled Tomatoes Can 400g	Housebrand		\$0.69		
Coles	Smart Buy Conventional Diced Tomatoes Can 400g	Housebrand		\$0.60		
Coles	Coles Diced Italian Conventional Tomatoes Can 400g	Housebrand		\$0.80		
Coles	Coles Whole Peeled Italian Conventional Tomatoes Can 400g	Housebrand		\$0.80		
Coles	Coles Diced Australian Conventional Tomatoes Can 400g	Housebrand		\$0.99		
Coles	Coles Passata Conventional Pasta Sauce Glass 690g	Housebrand		\$1.70		
Woolworths	Homebrand Conventional Diced Tomatoes Can 400g	Housebrand			\$0.59	
Woolworths	Woolworths Select Conventional Australian Diced Tomatoes Can 400g	Housebrand			\$1.79	
Woolworths	Woolworths Select Italian Conventional Whole Peeled Tomatoes NAS Can 400g	Housebrand			\$1.49	
Woolworths	Homebrand Conventional Cooking Passata Glass 680g	Housebrand			\$1.69	
Aldi	Remano Whole Peeled Conventional Italian Tomatoes Can 400g	Housebrand				\$0.69
Aldi	Remano Diced Conventional Italian Tomatoes Can 400g	Housebrand				\$0.59
Aldi	Remano Crushed Conventional Australian Tomatoes Can 410g	Housebrand				\$0.95

***Source was Coles, Woolworths, Aldi – Nepean Highway, Westfield Southland Cheltenham VIC 3191, dated 08.01.2015 & Oasis Bakery – North Rd, Murrumbena, VIC 3162, dated 13.11.2014

As stated by SPC Ardmona, growing organic tomatoes is a slightly different process, as is the harvesting and manufacturing process. This is not the case. To grow and pack Organically certified goods via this process add significant cost to the imported product and do not compete with locally produced product. It is with interest that we note that the drain weight of Ardmona Whole Peeled Australian Conventional Tomatoes 400g is 228g reflecting 57% of the can holding actual Tomatoes, whereas Global Organics Organic Tomatoes 400g has a drain weight of 60% reflecting 240g of Organic Tomatoes.

SPC Ardmona also stated within their claim that “Price” is the key determinant of the purchase criteria and that consumer’s switch based on this. As per the above price chart, it is very clear that if anything, Global Organics Organic Tomatoes, if using this logic, would be at an extreme competitive disadvantage given its price position. Given Organic Tomatoes are not in this price space, we believe this argument is not relevant. If anything, if we do not have an exemption, these prices will only increase to the Australian consumer. The pricing that SPC are referring to are the entry level conventional Tomato products.

PART D, D.3

KADAC’s Global Organic canned organic tomatoes are not sold to the major retailers, and are only sold to health stores and to some independent stores. Terms of trade that SPC refer to are only relevant if products are being sold into that specific selling marketplace that is major retailers. As Global Organics Organic Tomato products are not sold into the same marketplace, that is major retailers, therefore this point is not relevant.

PART E, E3 – “If you are capable of producing identical, like or directly competitive goods, explain why you have not produced such goods”

SPC do not say that they can produce or are prepared to produce Organic products, but rather under this query have deferred to the argument of “like” products.

Consumers of Global Organic canned organic tomatoes are consumers who actively search and seek organic products including organic canned tomatoes as an organic ingredient for home cooking and meal preparation. The average price of our organic canned tomatoes is significantly higher than other products including locally produced canned tomato product. As referenced in table.

PART F F.1 – Additional Comments

Provide any additional comments including any other information that will assist the Commission in reaching a recommendation to the Parliamentary Secretary regarding this application for exemption.

“SPC Ardmona response: If these products are exempted from duty, it is likely that the price differential caused due to these will result in SPC Ardmona’s loss of share as the consumers shift to lower price products, thereby the impact of the dumping duties applied will be negated. This could lead to possible circumvention through goods with minor modifications”.

In response to this, we believe that the price argument here is irrelevant when the comparison is done between Conventional Tomatoes products and Global Organics Organic Tomatoes. As per the price chart previously under section Part D, it is quite clear that there is already a significant price gap. In fact, Kadac has not put the price up on the Organic products in question and have absorbed this duty impact whilst moving through this review process. It is not an accurate assumption from SPC that Global Organics Organic Tomato products will reduce in price if the anti-dumping duty is removed because the price has not changed as yet to reflect the new duty. In all reality, the price of Global Organics Organic Tomato products will stay the same reflecting the current massive price gap if the exemption is granted as we have not moved our pricing at all. It must be advised that Global Organics Organic Tomato products have never been at a level similar or below SPC Tomato products and therefore have not required SPC to price promote against the Global Organics Organic Tomato brand.

The real target or comparison here should be between Conventional Tomato products in the Housebrand space. Furthermore, SPC claiming it has suffered material injury due to ongoing dumping maybe refuted based on the issues raised and finding made by the Productivity Commission. Ultimately, the Productivity Commission found that PUBLIC RECORD Final report 217 Prepared or preserved tomatoes – Italy 55 increased imports of the processed tomato products under reference have not caused serious injury to the domestic industry producing like or directly competitive products. Instead, the injury has resulted from a combination of factors, including:

- Sustained competitive pressure from imports
- Supermarket private label strategies, facilitated by the appreciation of the Australian dollar
- Extreme weather events

The Commission has determined that factors other than dumping, including the appreciation of the Australian dollar and the retail strategies of the major supermarkets have played a contributing role to the injury experienced by SPCA during the investigation period.

Kadac believes that there should be no import dumping duties applied to its Global Organics Organic Tomato products imported as they are not a direct price competitor with locally produced conventional canned tomatoes, which is on what the basis of the initial claim was made. They are also a point of difference within the market and ensuring further choice is available to the Australian consumer.

To clarify, the 3 Global Organics Organic Tomato products seeking an exemption are:

- Global Organics Organic Tomatoes Chopped Can 400g
- Global Organics Organic Tomatoes Whole Peeled Can 400g
- Global Organics Organic Tomato Passata Rustica Glass 680g

We look forward to your findings and response.

Regards,

Peter Lovely

Date: 8th January 2015



Peter Lovely

Merchandise Manager

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